

MMA Testimony on MEGA

House Appropriations Committee

March 4, 2015

Thank you, Mr. Chairman and committee members, for the opportunity to talk about MEGA today.

I am Mike Johnston, VP of Government Affairs for the Michigan Manufacturers Association.

Let me start by talking about the Michigan Manufacturers Association and its members. We represent over 2,500 companies in the full spectrum of manufacturing activities ranging from mining to steel making, from cement manufacturers to polycrystalline silicone, from tool and die shops to auto manufacturers. Manufacturing is the largest sector of the Michigan economy, making up 21.4 percent of the state's gross state product. Our members include some of the most iconic names in American manufacturing, though 85 percent of our members employ 100 employees or less. While there is a tendency to think of manufacturing as large companies, the reality is the manufacturing sector is made up of a lot of small businesses.

Manufacturing employs 574,500 people in Michigan. Manufacturing is driving the Michigan recovery and, in fact, Michigan has led the nation in manufacturing growth for the last five years, having created 114,000 manufacturing jobs. Let me say it again, Michigan has led the nation in manufacturing job growth for the last five years.

This is a staggering fact. Most people have a hard time believing that Michigan could actually be leading the nation in manufacturing growth, when we spent most of the first decade of this century leading the nation in unemployment. The image of Michigan is not keeping pace with reality. Michigan is strong and manufacturing is driving the recovery.

The Auto Industry Is a Big Part of the Recovery

The auto industry is a big part of that jobs based recovery. I'd like to share several facts to help describe the importance of the auto industry to Michigan.

- According to the Center for Automotive Research, between 2010 and July 2014, automakers and suppliers invested \$16.3 billion in Michigan.
- Over the last five years, the Big Three automakers alone have increased employment by about 37,000 people. For perspective, that is like adding another auto company. Collectively, they directly employ about 124,500 people.

- Michigan has the highest automotive employment contribution as a percentage of the state labor force, making up 19.9 percent.¹
- Michigan has the highest total auto employment, including suppliers and auto dealers, of any state in the nation with 532,000 jobs.²
- Michigan leads the nation in motor vehicle and motor vehicle parts manufacturer establishments with 1,741.
- In 2013, Michigan produced 2.47 million vehicles, beating the next state's production by over 1 million vehicles.
- Michigan is home to 375 automotive R&D centers.
- Michigan ranks first in the nation in the number of engineers with 89,000.
- Michigan leads the nation in automotive related R&D with \$8.9 billion, which is 76 percent of all R&D spending in Michigan.
- There are 1,415 tool and die establishments in Michigan, more than any other state.
- In 2009, total auto sales dropped to 10.4 million vehicles, from 16.1 million in 2007. Sales have rebounded to 16.5 million in 2014 and are projected to grow to 17.6 million by 2018.³

MEGA

Michigan is doing very well. The Snyder Administration and the legislature have dramatically transformed Michigan's business climate by removing many regulatory barriers to competitiveness. Michigan has been truly transformed and has dramatically increased its competitiveness.

The discussion of MEGA is essentially a discussion about the never-ending interstate battle for high value capital investment. It boils down to the reality that the billions of dollars of new investment in Michigan in the last five years could very easily have gone elsewhere. While Michigan's competitiveness has increased dramatically, MEGA is a big reason Michigan is winning the interstate battle for large capital investment.

¹ Center for Automotive Research, Contribution of the Automotive Industry to the Economies of the United States, January 2015

² Center for Automotive Research, Contribution of the Automotive Industry to the Economies of the United States, January 2015

³ Center for Automotive Research, Contribution of the Automotive Industry to the Economies of the United States, January 2015

I can assure you there are many states who would have loved to have the \$16.3 billion of new auto investment and 37,000 jobs that have come to Michigan. I heard that there were 29 governors from around the country at the Detroit Auto Show this year. While I am sure they like looking at new automobiles, I know they were actively talking with the automakers and the robust auto supplier base about making new investments in their states.

These Governors know that manufacturing, and particularly the auto industry, brings a very high economic multiplier effect. Every vehicle manufacturing job creates 7 other jobs across the economy.

The Center for Automotive Research points out that the auto companies employ 124,500 people directly in Michigan, while the supplier base adds another 202,000 people, plus expenditure induced jobs of 244,000, total jobs amount to 570,000.⁴ You can see the importance of attracting the auto companies, because the supplier base tends to follow, with many other related jobs.

These governors also know that the big reason Michigan is currently winning the investment game is because MEGA is the best economic development program in the country.

MEGA Is a Good Return on Investment

MEGA is a good return on the state's investment because it requires significant capital investment and job creation. MEGA is highly accountable. Credits are allowed only after the MEDC audits ensure the promised jobs and investments are delivered.

At the core of MEGA is the notion that the investment is actively recruited to go elsewhere, and Michigan must compete to get those jobs and investment here in Michigan. The number of jobs and investment in Michigan is clear evidence of success. Michigan won the battle for those assets.

The Budget Issue

I'd like to discuss the budget issue. Some policymakers are attributing the budget challenge to the MEGA program. I would submit that the budget challenges would be far greater if the \$16.3 billion of auto sector investment was not made in Michigan, but instead went to other states. We should all recognize a victory when we see one, and not forget the realities of the Great Recession. Michigan is doing very well compared to five years ago. The 114,000 new manufacturing jobs leads the nation and those jobs have helped support the total job growth of 306,000 new jobs in Michigan.

⁴ Center for Automotive Research, Contribution of the Automotive Industry to the Economies of the United States, January 2015

To review history, let's look at some examples.

During the Great Recession, Ford closed 14 major manufacturing facilities across the country, only one of them was in Michigan. The company currently has 13 major manufacturing facilities, two test tracks, and its World Headquarters in Michigan. Ford works with 2,400 suppliers in Michigan spending more than \$16 billion a year in Michigan. They have invested \$4 billion in Michigan, since 2011 and created 11,000 new jobs. They have 70,900 retirees in Michigan, and employ more than 43,000 people in Michigan.

Five former Chrysler plants were closed outside of Michigan. FCA US now operates 10 plants in the state. Additionally, the company has invested more than \$2 billion in Michigan since 2009 and created over 15,000 new jobs. FCA US employs more than 34,000 workers in Michigan and more than 33,000 retirees; the company spends \$12.3 billion annually with more than 2,200 Michigan-based suppliers.

In the last five years, GM has invested \$5.6 billion in Michigan and created 11,000 new jobs in Michigan. The company has 35 facilities in Michigan. GM works with 3,809 suppliers and spends over \$25 billion per year in Michigan. GM employs 46,780 people in this state.

Conclusion

In conclusion, just a few short years ago during the Great Recession, Michigan looked very bleak. Now, Michigan is leading the nation in manufacturing growth. With the leadership of the Snyder Administration and the legislature, Michigan's business climate has truly transformed. However, MEGA has played an important role in ensuring the auto industry remained here in Michigan, thus preventing other states from attracting that new investment.

If we had not won that battle, and new large investments had been attracted to other states, Michigan would be still languishing in the doldrums of 2009. If Michigan had not successfully retained and attracted the kind of investment it has, the economic picture for Michigan would be much different today.

As we look at other states, they clearly want what we have in terms of our nation leading manufacturing job growth. We have won a very important economic battle in retaining and growing the auto industry here in Michigan coming out of the Great Recession. While there may be some budgeting issues, I think it is fair to say the challenges would be much greater if not for the \$16 billion dollars of investment in Michigan.

Thank you, Mr. Chair, for the opportunity to share our thoughts today.